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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 002306

SIPDIS

STATE FOR U/S HORMATS, EEB AND EAP/J

STATE PLEASE PASS TO NSC FOR DANNY RUSSELL AND JIM LOI

STATE PLEASE PASS TO USTR FOR WENDY CUTLER AND MICHAEL BEEMAN

USAID FOR AA/EGAT MICHAEL YATES AND ODP KAREN TURNER

E.O. 12958: DECL: 10/02/2019

TAGS: [ECON](#) [EFIN](#) [PREL](#) [INRB](#) [FTRD](#) [ETTC](#) [EAID](#) [JA](#)

SUBJECT: DPJ CABINET PROVIDES OPPORTUNITIES TO ENGAGE JAPAN ON ECONOMIC ISSUES

REF: A. TOKYO 2238

- [B.](#) TOKYO 2222
- [C.](#) TOKYO 2177
- [D.](#) TOKYO 2137
- [E.](#) TOKYO 2079
- [F.](#) TOKYO 2080
- [G.](#) TOKYO 1757
- [H.](#) TOKYO 1742

Classified By: Ambassador John V. Roos, Reason 1.4 (B) and (D)

**¶1. (C) Summary:** Prime Minister Hatoyama is working on an eight or nine-month priority timeline until the Upper House elections in July 2010. Washington agencies, in developing priority economic issues to engage the new Japanese Government, should consider focusing on issues where our two countries' interests converge during this period when the DPJ will want results. We are likely to gain the most traction on issues where the DPJ government is already moving in a favorable direction, e.g., economic recovery, climate change/energy, APEC/regional integration, export controls and combating the financing of terrorism, and development assistance. In these issue areas, the USG has an opportunity to make progress and build trust that enables our two governments to work on more difficult issues after the Upper House elections. At the same time, we cannot neglect pressing the GOJ to address longstanding bilateral irritants such as beef and the pace and direction of postal privatization. DPJ politicians are already querying the Embassy about establishing a bilateral economic dialogue (see comment, para 9), but have yet to approach the GOJ bureaucracy. Though currently lacking a blueprint for such a dialogue, these politicians envision talks covering subjects including a U.S.-Japan Free Trade Agreement, China's rise, broader regional integration, and IPR protection. End Summary.

New to Governing, But not Inexperienced

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**¶2. (C) Democratic Party of Japan (DPJ) President Yukio Hatoyama's cabinet, by many measures, is one of the most experienced and well regarded in recent memory. The 17-member cabinet includes former ministers (Finance Minister Fujii), subject matter experts (National Strategy Bureau and S&T Minister Kan), as well as business leaders (METI Minister Naoshima) and former bureaucrats (Foreign Minister Okada is a METI alumnus). Observers, as a result, view the cabinet as experienced and competent, and new ministers are lending credence to this image in meetings with senior USG officials.**

Following its inauguration on September 16, the Hatoyama government has set about meeting senior USG officials to explain its policies and build personal relationships. PM Hatoyama, FM Okada, Finance Minister Fujii, Environment Minister Ozawa and other officials have or will soon travel to the United States. While initial impressions are positive, concerns about the DPJ's ability to navigate some of the more sensitive economic issues remain.

DPJ Time Line for Success is Short

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¶3. (C) The DPJ tells us that the party and its policies will focus on winning the July 2010 Upper House elections so that the DPJ can jettison its unwieldy coalition with the People's New Party (PNP) and the Social Democratic Party. This means that for at least the next ten months, the DPJ will focus on improving consumer welfare, economic recovery, income redistribution, and elimination of waste.

¶4. (C) This short-term timeline is necessitated by the DPJ's Lower House coalition of convenience and the party's need to quickly and demonstrably help working families while keeping the opposition Liberal Democratic Party (LDP) off guard and off balance. As Upper House member and former Morgan Stanley derivatives trader Tsutomu Okubo has noted, the DPJ's economic and social policies are July 2010-focused, and the coalition the Party has assembled is designed to rapidly pass pocketbook assistance and budget legislation through the Diet. Okubo has further told us that following a DPJ Upper House election victory in July 2010, the Party could reshuffle the cabinet and turn to longer term economic and

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other issues. All of this, however, is predicated on a 2010 Upper House victory.

¶5. (C) The DPJ's priorities and timeline suggest the USG should take a goals-oriented approach during the new Japanese government's first year. This approach could aim for specific successes prior to July 2010 as part of an ongoing effort to build trust, facilitate cooperation, and deliver results. To the extent Washington agencies could focus on DPJ priority agenda items, e.g., economic recovery, energy and the environment, and better quality and lower cost health care, there is a real opportunity to make short term progress and build momentum. There is also a prospect to engage the DPJ on its stated desire for greater transparency in government law and rulemaking.

¶6. (C) This is not to say we should abandon the more difficult and protracted issues such as postal privatization and beef. These longstanding concerns should be discussed and explained, and solutions sought. However, the DPJ will only reluctantly address issues in politically charged areas before consolidating its hold on the Upper House of the Diet. Open disputes related to the U.S.-Japan trade and economic relationship could strain the coalition and are unlikely to result in progress during this period.

Convergence

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¶7. (C) Embassy Tokyo sees at least five main areas on the economic and trade front where U.S. interests and DPJ policy priorities will converge over the next ten months:

(a) Economic Recovery: Japan's support for stabilizing and reviving the global financial and trading systems, as evidenced by its engagement in the G7 and G20 fora, the IMF, as well as the government's domestic stimulus and overseas assistance programs, dovetail in many respects with similar U.S. efforts to facilitate economic recovery. The DPJ's focus on domestic demand-led growth is consistent with the necessary rebalancing of global growth. Finance Minister Fujii reiterated to Ambassador Roos (ref B) that Japan

intends to work with the USG and the G20 partners toward this goal. He further added the DPJ is "hard at work" revising the FY10 budget to meet the party's objectives outlined in its election manifesto to improve consumer welfare and boost business confidence. Fujii, a former Finance Minister and career bureaucrat with experience in the ministry's Budget Bureau, is well versed in the intricacies of the Japanese budget.

(b) Energy/Climate Change: The DPJ has a deep commitment to address climate change, reduce the carbon intensity of the economy, develop and diffuse new technologies for renewable fuels, build more efficient transportation, and adapt other energy saving technologies. PM Hatoyama highlighted this commitment in his September 20 call at the United Nations Environment Conference for a 25 percent reduction in Japan's GHG emissions over 1990 levels (ref E). The DPJ's aggressive policy and its pledge to increase assistance to developing countries for climate change mitigation and adaptation under the "Hatoyama Initiative" provide fertile ground for increased bilateral cooperation on the environment. Minister of Environment Ozawa told Ambassador Roos (ref A) the U.S. and Japan have much common ground for cooperation on clean energy and measures to address global warming. Ozawa also stressed the importance of technological innovation to solve climate change, as well as the support of the next generation of business leaders. This is clearly an area the USG can work with the DPJ to improve business and export opportunities.

(c) APEC: The DPJ wants to host a successful APEC Leaders' Meeting in 2010, and is committed to strengthening relations with the U.S. and its Asian partners. The Embassy is confident that DPJ leaders seek close cooperation with the USG, especially with the APEC chairmanship passing to the U.S. in 2011, as key to achieving their regional economic, trade and investment objectives. Washington should consider working with the DPJ government to advance our regional trade liberalization agenda, but at the same time recognize the DPJ's maneuverability may be hindered by domestic

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considerations.

(d) Export Controls and Counter Terrorism Financing: The DPJ appears interested in continuing to work with the USG to prevent the flow of illicit funds and materials from reaching regimes and individuals determined to undermine regional stability, in particular when they involve North Korea and Iran. For example, FM Okada told Iranian FM Mottaki September 23 on the margins of the UNGA that Iran should cease uranium enrichment. The United States and Japan have cooperated closely on non-proliferation issues, and the U.S. campaigned hard for Japanese candidate Yukiya Amano in his successful run for Director General of the IAEA. However, we should also encourage the DPJ to assume a leadership role to improve global export control and sanctions efforts. One area where steps could be taken is in shoring up Japan's inadequate system to combat money laundering and the financing of terrorism. Improving Japan's compliance with the Financial Action Task Force (FATF) recommendations (a FATF peer review determined that Japan was non-compliant in 10 areas and only partially-compliant in 15 areas) would send a strong signal of enhanced bilateral and multilateral cooperation in an important economic and law enforcement area.

(e) Development Assistance and the "Hatoyama Initiative": The DPJ pledged during the election campaign to use foreign assistance to support "human security" by fighting global pandemic diseases, protecting the environment and reducing poverty. Short on specifics, the DPJ pledge appears to diverge little if any from the Japan's priorities to date for its substantial ODA program. At the same time, the DPJ has indicated it intends to review ODA policy and funding levels, along with other government spending, and may also bring in some new priorities including a greater role for NGO

involvement in foreign aid implementation. Hatoyama already has identified development assistance as pivotal to Japan's role as a bridge between developed and developing countries. In his speech to the UN General Assembly, Hatoyama underscored that national security and human security are intertwined and said Japan will work in partnership with NGOs and international organizations to increase the quality and quantity of foreign assistance toward such efforts as Afghan reconstruction, African development and realizing the Millennium Development Goals (MDGs). Hatoyama also announced his intention to ramp up GOJ assistance to developing countries to help mitigate and adapt to the effects of climate change. Calling his plan the "Hatoyama Initiative", the Prime Minister seems intent on making climate change assistance a signature area of foreign aid. The USG should continue to cooperate with Japan on mutual priorities, stressing in particular the importance of Japanese civilian assistance in Afghanistan and looking for linkages between our programs in Sub-Saharan Africa, the Asia-Pacific, and on climate change.

#### Managing Areas of Divergence

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**¶8. (C)** As the DPJ's leadership continues to articulate and refine its economic and trade agenda, Embassy Tokyo also sees areas where Japanese government policies could diverge from those of the USG:

(a) **Trade:** The new DPJ-led government is unlikely to further liberalize trade before the Upper House elections next summer. Traditional, entrenched interests will resist any liberalization efforts, but this should not deter the U.S. from continuing to encourage the DPJ government to live up to its party platform pledges. The DPJ is, however, unlikely to significantly change Japan's position on the Doha Development Agenda, and will likely support NAMA and services liberalization efforts while maintaining its reluctance to liberalize trade in agriculture. Cooperation via APEC and a steadily improving economy will help generate some positive movement, but we expect Japan to pursue objectives that have minimal effect on its protected domestic economy. For example, we believe it will work to improve the food security of the poorest APEC member economies in a way that minimizes change to Japan's own protectionist agriculture policies. We need to continue to press on access for U.S. beef and beef products, even though we are pessimistic about progress under new Socialist Food Safety Minister Fukushima Mizuho and new

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Minister for Agriculture, Forestry and Fisheries (MAFF) Hirotaka Akamatsu. Over the longer term we are more optimistic that Minister Kan (a scientist), FM Okada (a METI trade bureaucrat alum), and Ichiro Ozawa, who was behind the DPJ's election campaign proposal (later scaled back) to pursue a Free Trade Agreement with the U.S., might steer the DPJ to a more open trade policy. Their decisions to weigh in on trade, agriculture, investment, and other international economic issues could set the tone for successful engagement with Japan in these areas following the summer 2010 election.

(b) **Redistribution vs. Productivity:** the DPJ's particular brand of economic populism suggests its domestic agenda will be aimed at promoting redistribution such as more handouts for families with children, free education, direct payments to farmers, and more small business support, than at productivity increases to drive future growth. In order to lay the groundwork for progress in the longer term, we should continue to stress in our discussions with the Japanese the need to increase productivity, particularly services sector productivity, and to undertake key structural reforms, particularly labor market liberalization.

Comment: Discrete Objectives and the DPJ Election Timeline

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**¶9. (C) Comment:** The next several weeks leading up to the President's visit to Tokyo in November and Japan's assumption of the APEC chair for 2010 in December present an opportunity to partner with the Hatoyama Administration. Selection of a few economic objectives where we stand the best chance of making progress prior to the Upper House elections can result in accomplishments and generate momentum to resolve some of our more intractable issues such as beef and postal privatization later. We are working to identify the levers of power in the new DPJ government so that we are able to focus our limited resources on the decision-makers. Key DPJ politicians are already querying the Embassy about establishing a bilateral economic dialogue, i.e., a "Strategic Economic Dialogue" (the DPJ's term). They currently have no blueprint for such a dialogue, but envision talks covering subjects including a U.S.-Japan Free Trade Agreement, China's rise, broader regional integration (APEC and the "East Asian Community" concept), and IPR protection, e.g., the Anti-Counterfeiting Trade Agreement (ACTA). DPJ politicians, notably Kitagami Keiro, Fujisue Kenzo, Odachi Motoyuki, Ogushi Hiroshi, and Okubo Tsutomu, have put thought into the substance of a U.S.-Japan dialogue, but the DPJ has not initiated discussions with Japanese bureaucrats. The first summit meeting between the President and PM Hatoyama in Tokyo in November could help focus what the two governments aim to accomplish in these "economic partnership areas" by summer 2010. End Comment.

ROOS